

State of California

DEPARTMENT OF MOTOR VEHICLES



FINAL AUDIT REPORT

**AUTOMOBILE CLUB OF
SOUTHERN CALIFORNIA
PROGRAM
COMPLIANCE AUDIT**

**AUDITS OFFICE
DEPARTMENT OF MOTOR
VEHICLES**

JANUARY 2010



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DMV

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January 26, 2010

Colleen Villarreal, DMV Liaison
Automobile Club of Southern California (ACSC)
3333 Fairview Road, A-175
Costa Mesa, CA 92626

Dear Ms. Villarreal,

The final audit report for the Automobile Club of Southern California (ACSC) Compliance Audit is attached for your information. In October 2009, we sent a draft of this report for your review and response. Included in this final report are excerpts of your responses and our evaluation. The responses are also included in their entirety as ADDENDUM 1 at the end of this report.

We request that ACSC DMV liaison provide us with a status report at 6 months and 1-year from the date of this final report addressing the implemented corrective actions. If warranted, a follow up review may be conducted to ensure that appropriate corrective actions have been implemented to rectify each finding.

We appreciate your cooperation during this audit. If you have any questions regarding this report, please contact Sherry Clark at (916) 657-6237.

CHRISTIANA MBOME, CPA
Manager, Internal Audits Branch
Audits Office
657-6480

Attachment

cc: George Valverde, Director
Matt Paulin, Chief Deputy Director
Jerry McClain, Audits Chief
Kathleen Rose, Deputy Director, ROD
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AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA PROGRAM COMPLIANCE AUDIT

FINAL AUDIT REPORT

JANUARY 2010

EXECUTIVE SUMMARY

At the recommendation of the Department of Finance (DOF) and as required by the Institute of Internal Auditors (IIA) Inc., the Internal Audits Branch (IAB) conducted a Department-wide Risk Assessment in 2008 to evaluate the Department from a strategic perspective, and identify high-risk programs, processes, and/or activities to audit. The **Automobile Club (Auto Club) Program** was identified as a moderate to high-risk program impacting the Department of Motor Vehicles' (DMV) core business functions. The selection factors included the integrity and confidentiality of registration records, unstable system environment, security and confidentiality of DMV information, inventory discrepancies, high potential for fraud and resulting in loss of revenue, and non-compliance with the terms of the Automobile Club Agreement (Agreement).

The Registration Operations Division (ROD) provides oversight over the auto clubs to ensure that auto clubs comply with the Agreement requirements, train their staff adequately, provide security over DMV assets, comply with laws and regulations, and establish systems and procedures for monitoring the effectiveness and efficiency of the program.

This audit assessed the Auto Clubs' compliance with the Agreement provisions, applicable laws, and regulations. In addition, the audit measured adherence to policies and procedures in safeguarding DMV assets and processing vehicle and vessel registrations, DMV information privacy and security controls, effectiveness of internal controls, and sufficiency of governance and oversight. Further, it incorporated the responses to questionnaires completed by the ROD Auto Club Administrator, Receiving Field Offices, 24 selected Auto Club branch offices, and onsite visits of these offices.

Our audit disclosed that overall, the ACSC Auto Club branch offices adhere to the provisions in the Agreement and applicable laws and regulations. However, 13 out of 14 branch offices audited exhibited the following weaknesses:

- Five Auto Club branch offices processed DMV transactions for non-members
- Auto Club employees audited and reconciled their own daily work
- Technicians at two auto clubs failed to secure accountable inventory prior to leaving their DMV workstations

Details of these findings as well as recommendations for corrective actions are included in the *Findings and Recommendations* section of this report.

BACKGROUND, OVERVIEW AND AUTHORITY

To enhance the services the DMV provides to the public, the DMV has discretionary authority based on Vehicle Code Section 4610 to grant auto clubs and their designated branch offices permission to process specified registration and miscellaneous transactions, provided they have been issued a Certificate of Authority as provided in Section 12160 of the Insurance Code. As a condition of the Agreement between DMV and the auto clubs, their designated offices must comply with the applicable laws, regulations, and standards regarding vehicle registration transactions and the requirements stated in the Agreement.

Currently, there are three auto clubs and 166 branch offices authorized to process DMV vehicle and vessel transactions for their members. The three auto clubs are: Automobile Club of Southern California (ACSC), California State Automobile Association (CSAA), and National Automobile Club (NAC). Their branch offices process over four million transactions annually and collect over \$500 million in revenue.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors, Inc., *Generally Accepted Government Auditing Standards* promulgated by the US Government Accountability Office, and under the authority granted to us in the Audit Charter. This audit report presents the details and results of the audit.

OBJECTIVES AND SCOPE OF AUDIT

The general objective of the Auto Club Program Compliance Audit was to provide management with an independent assessment of the risks, controls, and governance processes associated with the related activities, and provide recommendations to enhance the auto club's efficiency and effectiveness.

Specific audit objectives included the following:

- Assessed the existing risks associated with the Auto Club Program, and determined whether compensating controls were in place to identify and mitigate such risks. (Program Risks)
- Ensured that auto clubs adhere to policies and procedures relating to the receipt, issuance, inventory, and security of accountable items (Accountable Items)
- Verified whether adequate privacy and security controls exist to safeguard customer personally identifiable information (PII), and prevent unauthorized access to DMV information and system. (Privacy and Security)
- Authenticated the existence of policies and/or procedures, and determined whether Auto Club employees adhere to applicable policies and/or procedures in

the Agreement while processing vehicle registration transactions. (Policies and Procedures)

- Verified whether ROD management has adequate monitoring and governance control procedures in place to ensure the Auto Club Program is effective and efficient. (Governance and Oversight)

The evaluation and assessment included an examination of records and practices related to vehicle registration and titling transactions and associated activities, as well as the applicable inventory records for the sixteen-month period from July 1, 2007 through April 30, 2009.

APPROACH AND METHODOLOGY

In order to accomplish the above objectives, the Internal Audits Branch prepared and submitted a questionnaire to the Auto Club Program Administrator and evaluated the auto clubs' required documentation to ensure compliance with the terms of the Contract and the applicable laws and regulations. The following were evaluated:

- Accountable inventory ordering, receiving, and supply limitation procedures
- Inventory recording and issuance of accountable and controlled inventory
- Storage and security of DMV accountable and controlled inventory
- Proper handling of accountable and controlled items discrepancies
- Privacy and security over customer personally identifiable information, DMV information, and system
- Adherence to policies and procedures while processing vehicle registration transactions
- Adequacy of internal controls when processing DMV transactions
- Adequacy of governance and oversight over the Auto Club Program

The auditors conducted onsite audits at 14 ACSC Auto Club branch offices at locations statewide. See **TABLE 1** at the end of this report for a list of auto clubs audited.

The Auto Club branch offices were selected based on the following factors:

- (1) Locations recommended for audit by ROD and the Investigations Division
- (2) Number of vehicle registration transactions processed annually
- (3) Noted inventory discrepancies
- (4) Pilot program participants with Control Cashier responsibilities
- (5) Auto Club branch offices not audited in the last four years

RESULTS AND OPINION

Overall, our evaluation revealed that the Auto Club branch offices adhere to the contract terms, applicable laws and regulations and there were no significant internal control weaknesses. However, some program requirements have not been adequately enforced and monitored. We identified six reportable conditions described in the *Findings and Recommendations* section of this report.

In our opinion, the system of internal controls in effect at the Auto Club branch offices as of **July 29, 2009**, taken as a whole, was sufficient to meet the noted objectives in this report.

NEXT STEPS

This is the final audit report for this audit. We request from the ACSC DMV Liaison a status report at 6 months and 1-year from the date of this final report addressing the implemented corrective actions. If warranted, a follow up review may be conducted to ensure that appropriate corrective actions have been implemented to rectify each finding.

FINDINGS AND RECOMMENDATIONS

The IAB incorporated the audit responses and our evaluation to this final report. The responses in their entirety are included in **ADDENDUM 1 - ACSC Audit Response**.

FINDING 1: Five Auto Club Branch Offices Processed DMV Transactions for Non-Members

CONDITION:

One of the measures used to determine the auto clubs' adherence to the contract terms and the required policies and procedures, was the completion of a questionnaire. One question verified whether the offices processed DMV transactions for non-members. Review of the questionnaire responses determined that five out of the 24 Auto Club branch offices issue disabled placards and plates to non-auto club members. The ACSC DMV authorized staff stated that during their initial training by ACSC "University" in Costa Mesa, they were instructed to issue disabled placards and plates as a courtesy for non-members. However, according to the terms of the Agreement, the processing of transactions for non-members is prohibited.

The auto club's non-compliance to the terms of the Agreement increases the risk of fraudulent activity and theft. In addition, there is a risk of non-compliance with the requirements noted in the California Code of Regulations Partnership Agreement, which may lead to termination of the offices' participation in the program. This issue occurred at the Torrance, Lancaster, Laguna Hills, West Hollywood, and Hemet Auto Clubs.

CRITERIA:

Automobile Club Automation Agreement #97-01 states in part the following: "DMV agrees to provide ACSC with information, and the same or similar automated equipment as is in use in DMV field offices, necessary to facilitate ACSC performing vehicle and vessel registration work for its members."

California Code of Regulations Automobile Club Partnership Agreement Section 226.30 states, "A partner, its owner(s) and employees shall not use information received from its members or the department to process a vehicle registration transaction for any purpose other than the purposes authorized by this article."

Section 226.32 (a) states, "An ACP partner shall retain all business records relating to their members vehicle registration transactions for a period of three (3) years plus the current year following the termination or expiration of a partnership contract for any ongoing examination, audit and investigation pursuant to Sections 226.36 and 226.38 of these regulations."

RECOMMENDATIONS:

To ensure that the auto clubs comply with the terms of the Agreement, the branch offices should adhere to the following:

1. The auto clubs must adhere to the provisions of the Agreement and cease processing DMV transactions for non-members.
2. The training curriculum provided by ACSC "University" in Costa Mesa must be revised to ensure that employees are no longer trained to issue disabled placards and plates to non-members as an exception.
3. Finally, Management should establish monitoring procedures to ensure that auto club employees process transactions for members only.

ACSC RESPONSE:

1. Communication has been submitted to all Automobile Club of Southern California employees to address that under no circumstances will exceptions be made to assist non-members and referencing Automobile Club Automation Agreement #97-01, California Code of Regulations Automobile Club Partnership Agreement Section 226.30, and Section 226.32. Ongoing communication to our branches and monitoring of this corrective action will be conducted by our DMV Liaison.
2. Communication has been sent to management of our ACSC training University in Costa Mesa to revise the DMV training materials to no longer state the exception can be made for non-member transactions for disabled placards and plates.
3. All internal resources, including procedural manuals will be reviewed and updated to emphasize the restriction to process non-member transactions only.

AUDIT OFFICE'S EVALUATION:

We agree with the corrective actions implemented by ACSC. The actions will rectify the non-compliance issue and minimize the risk of fraud and theft. We request that ACSC provide us with copies of the procedure manual and DMV training material revisions. Further, we request a status report at 6 months and 1-year from the date of this final report addressing the implemented corrective actions.

FINDING 2: Auto Club Employees Audited and Reconciled Their Own Daily Work**CONDITION:**

Management delegates audit responsibilities of the technician's processed work and reconciliation of the day's collections to the Control Cashiers or a designee. This delegated authority is required to maintain integrity of the revenue collections and to ensure adequate separation of duties. Both the Temecula and Corona Auto Club designees reviewing the clearance for July 21, 2009, processed transactions that day, audited their own work, and reconciled the day's collections. However, procedures recommend that employees should not audit the work they process. When an Auto Club employee processes DMV transactions, audits the work, reconciles the collected revenue, and prepares the auto club deposit, this leaves the potential risk for fraudulent activity and/or theft. Without adequate separation of duties, it allows the employee the ability to manipulate the process and personally profit from the collected assets.

CRITERIA:

Accounting Manual, Chapter 6, Section 6-A-1 states in part...*Insofar as is practical, NO employee shall audit the work he or she has cashiered.*

RECOMMENDATION:

The Temecula and Corona Auto Club management should enforce procedures to ensure that there is adequate separation of duties between those processing the DMV transactions and those designated to audit the work and reconcile the revenue collected. Management must also periodically review the office processes to determine whether there is adequate separation of duties to prevent possible fraud or theft. Management should ensure that, in the event the designee is required to process transactions, that a second verification is conducted.

ACSC RESPONSE:

1. Communication has been made with both the Temecula and Corona Auto Club branches in regards to the adequate separation of duties necessary between those processing the DMV transactions, auditing the DMV work and reconciling the revenue collected.
2. Management at both branches have agreed to develop a rotating schedule that will be implemented immediately as a second verification that will ensure separation of duties between those performing DMV transactions and those performing the DMV

audit and reconciliation of the revenue collected. DMV Liaison will randomly review that this process has been implemented and adhered to.

AUDIT OFFICE'S EVALUATION:

We agree with the corrective actions implemented by the ACSC. The actions taken to establish adequate separation of duties in these offices minimize the risk of fraud or theft. No further action is necessary at this time.

FINDING 3: Technicians at Two Auto Clubs Failed to Secure Accountable Inventory Prior to Leaving Their DMV Workstations

CONDITION:

Auto Club office managers are responsible for the security of all accountable items received in their offices. During Auto Club branch office hours, all accountable items are to be stored in a place that is not accessible by customers and/or unauthorized auto club employees. At two of the Auto Club branch offices, the technicians failed to secure the accountable inventory when leaving their DMV workstations. All workstations include a drawer with a keyed lock used for storing the inventory, however; on several occasions, the technicians were observed leaving the drawers unlocked when leaving the work areas. When accountable inventory is left unsecured at DMV workstations, there is a possible risk of unauthorized access, loss or theft, which could lead to a loss of revenue for the department. This issue occurred at the Hemet and Corona Auto Clubs.

CRITERIA:

The Accounting Manual, Chapter 3, Section 3-F-3 states *"During auto club office hours, all accountable items shall be stored in a place that is not accessible to the general public or auto club employees who are not authorized to perform DMV registration work. Auto clubs must take reasonable steps to protect all accountable items from loss or theft."*

RECOMMENDATION:

To confirm that accountable inventory is properly secured, management must ensure that ongoing training is provided to all DMV authorized staff on the security of accountable inventory and address the importance of properly securing their workstation areas.

Further, we remind management that security of customer PII and all assigned accountable inventory is their responsibility and monitoring procedures should be enforced to ensure the DMV workstations are secured when the technicians leave the work area.

ACSC RESPONSE:

Corona Branch

1. The importance of securing the Accountable Inventory prior to leaving the employee's workstation has been discussed with Corona branch management.

2. Management understands and has reviewed this procedure with this specific employee. Although the DMV Accounting Manual states Auto Clubs must take reasonable steps to protect all accountable items, this employee's judgment was not a reasonable step to protect DMV inventory. The employee now understands the correct procedure and management will continue to observe to ensure Accountable Inventory is secured when workstations are unattended.

Hemet Branch

1. Hemet management has corrected this finding by now securing all unattended workstations by locking up any drawers with Accountable Inventory. This procedure has now been communicated with the staff that handles DMV transactions to ensure all Accountable Inventory is locked and secured while not actively using the workstation.
2. Management will continue to monitor any unattended workstation to ensure all DMV inventory drawers are locked and secured.

AUDIT OFFICE'S EVALUATION:

We agree with the corrective actions implemented by the ACSC. The actions will ensure the security of the accountable inventory; minimize the risk of unauthorized access, loss, or theft. No further action is required.

CONCLUSION

With the exception of the conditions presented in the *Findings and Recommendations Section*, internal controls at the auto clubs, as a whole, appear to be sufficient and functioning properly to meet the program objectives. However, some program requirements have not been adequately enforced and monitored.

Our recommendations will assist in improving internal controls and procedures, strengthen ROD's oversight responsibilities, protect customer PII, and reduce the risk of theft or misuse of DMV assets. These recommendations in no way should be considered a criticism of, or reflection on, any auto club or DMV employee.

CHRISTIANA MBOME, CPA
Manager, Internal Audits Branch
December 10, 2009

Review Staff:

Sherry Clark, Supervisor
John Chen
Ron DeBerard
Christopher Flora
Cecilia Lau
Lynette Piggee-Pinero

TABLE 1: AUDITED AUTO CLUBS

**AUTOMOBILE CLUB
OF SOUTHERN
CALIFORNIA
(ACSC)**

**AUDITED AUTO
CLUBS**

AUTOMOBILE CLUBS OF SOUTHERN CALIFORNIA

1	B20	HANFORD	565	HANFORD
2	B64	CLOVIS	580	CLOVIS
3	C13	HOLLYWOOD/WILSHIRE AUTO	652	HOLLYWOOD/VINE/ CULVER CITY
4	C74	LANCASTER AUTO	595	LANCASTER
5	C83	SANTA CLARITA AUTO	662	NEWHALL
6	C16	WHITTIER/LA HABRA AUTO	591	WHITTIER
7	C22	ANAHEIM AUTO	607	FULLERTON
8	C53	LOS CERRITOS AUTO	606	BELLFLOWER
9	C58	DOWNNEY AUTO	606	BELLFLOWER
10	C41	TORRANCE AUTO	608	TORRANCE
11	C54	CORONA AUTO	586	NORCO
12	C59	TEMECULA AUTO	672	TEMECULA
13	C63	LAGUNA HILLS AUTO	605	LAGUNA HILLS
14	C72	HEMET AUTO	635	HEMET

**AUTOMOBILE CLUB
OF SOUTHERN
CALIFORNIA**

AUDIT RESPONSE



Automobile Club of Southern California

AAA.com

November 16, 2009

Department of Motor Vehicles
Audits Office – Sherry Clark
2570 24th Street, Mail Station H121
Sacramento, CA 95818

Dear Ms. Clark:

This letter is in response to your request for the recent audit findings from your Draft Audit Report dated October 2009.

I'm responding on behalf of the twelve Automobile Club of Southern California branches that were recently audited by Department of Motor Vehicles in July 2009. Of the twelve branches, your Audit Report indicates three findings that affected seven of our branches and an additional three concerns with noted recommendations to strengthen our controls in four of the branches.

In reference to Finding 1: Five Auto Club Branches Processed DMV Transactions for Non-Members

Condition:

One of the measures used to determine the auto clubs' adherence to the contract terms and the required policies and procedures, was the completion of a questionnaire. One question verified whether the offices processed DMV transactions for non-members. Review of the questionnaire responses determined that five out of the 12 Auto Club branch offices issue disabled placards and plates to non-auto club members. The ACSC DMV authorized staff stated that during their initial training by the ACSC "University" in Costa Mesa, they were instructed to issue disabled placards and plates as a courtesy for non-members. However, according to the terms of the Agreement, the processing of transactions for non-members is prohibited.

The auto club's non-compliance to the terms of the Agreement increases the risk of fraudulent activity and theft. In addition, there is a risk of non-compliance with the requirements noted in the California Code of Regulations Partnership Agreement, which may lead to termination of the offices' participation in the program. This issue occurred at the Torrance, Lancaster, Laguna Hills, West Hollywood, and Hemet Auto Clubs.

Providing service to more than 10 million members

Headquarters: 2601 S. Figueroa, Los Angeles, CA 90007-3254 Administrative Offices: P.O. Box 25001, Santa Ana, CA 92799-5001



activity and/or theft. Without adequate separation of duties, it allows the employee the ability to manipulate the process and personally profit from the collected assets.

Recommendation:

The Temecula and Corona Auto Club management should enforce procedures to ensure that there is adequate separation of duties between those processing the DMV transactions and those designated to audit the work and reconcile the revenue collected. Management must also periodically review the office processes to determine whether there is adequate separation of duties to prevent possible fraud or theft. Management should ensure that, in the event the designee is required to process transactions, that a second verification is conducted.

Corrective Action Response:

1. Communication has been made with both the Temecula and Corona Auto Club branches in regards to the adequate separation of duties necessary between those processing the DMV transactions, auditing the DMV work and reconciling the revenue collected.
2. Management at both branches have agreed to develop a rotating schedule that will be implemented immediately as a second verification that will ensure separation of duties between those performing DMV transactions and those performing the DMV audit and reconciliation of the revenue collected. DMV Liaison will randomly review that this process has been implemented and adhered to.

Auto Club Recommendation:

ACSC DMV Liaison would like to recommend that DMV include this procedure in the DMV Accounting Manual, Chapter 3, Section 3-J-1, since ACSC branches do not receive the complete copy of the DMV Accounting Manual, which includes Chapter 6, Section 6-A-1, as made in your reference.

In reference to Finding 5: Technicians at Two Auto Clubs Failed to Secure Accountable Inventory Prior to Leaving Their DMV Workstations

Condition:

Auto Club office managers are responsible for the security of all accountable items received in their offices. During Auto Club branch office hours, all accountable items are to be stored in a place that is not accessible by customers and/or unauthorized auto club employees. At two of the Auto Club branch offices, the technicians failed to secure the accountable inventory when leaving their DMV workstations. All workstations include a drawer with a keyed lock used for storing the inventory, however; on several occasions, the technicians were observed leaving the drawers unlocked when leaving the work areas. When accountable inventory is left unsecured at DMV workstations,

there is a possible risk of unauthorized access, loss or theft, which could lead to a loss of revenue for the department. This issue occurred at the Hemet and Corona Auto Clubs.

Recommendation:

To confirm that Accountable Inventory is properly secured, management must ensure that ongoing training is provided to all DMV authorized staff on the security of Accountable Inventory and address the importance of properly securing their workstation areas.

Further, we remind management that security of customer Personally Identifiable Information (PII) and all assigned accountable inventory is their responsibility and monitoring procedures should be enforced to ensure the DMV workstations are secured when the technicians leave the work area.

Corrective Action Response:

Corona Branch

1. The importance of securing the Accountable Inventory prior to leaving the employee's workstation has been discussed with Corona branch management.
2. Management understands and has reviewed this procedure with this specific employee. Although the DMV Accounting Manual states Auto Clubs must take reasonable steps to protect all accountable items, this employee's judgment was not a reasonable step to protect DMV inventory. The employee now understands the correct procedure and management will continue to observe to ensure Accountable Inventory is secured when workstations are unattended.

Hemet Branch

1. Hemet management has corrected this finding by now securing all unattended workstations by locking up any drawers with Accountable Inventory. This procedure has now been communicated with the staff that handles DMV transactions to ensure all Accountable Inventory is locked and secured while not actively using the workstation.
2. Management will continue to monitor any unattended workstation to ensure all DMV inventory drawers are locked and secured.

In reference to Concern #1: Confidential shred bins remained locked throughout the day and keys are secured with limited authorized access.

This concern has been addressed with our Los Cerritos and Torrance management. Emphasis has been stressed on the importance of protecting member personally identifiable information (PII) and the staff now has a clear understanding of the consequences violating DMV information privacy policies.

Management has implemented proper procedures for protecting and disposing of confidential vital data, including to continually monitor the confidential shred bins are locked throughout the day.

In reference to Concern #2: Series 1 Password Security Reports were not signed and dated

Correct Password Security Report procedures have been discussed and reviewed with the management at the Los Cerritos and Santa Clarita branches. Both branches have implemented the correct procedures to closely review the password change reports to determine any security risks or training needs. Also, management now understands the importance to sign the Series 1 Password Security Report and upon review to ensure the technicians have signed acknowledging the changes.

In reference to Concern #3: Daily Work not reviewed prior to submission to the Receiving DMV Field Office

Procedures to review the daily work including proper documentation, completeness, legibility of forms, and proper sequence of accountable items have been discussed with the management in the Temecula branch.

The Temecula management now has a clear understanding of the audit procedure and will adhere to the DMV Accounting Manual procedures of the daily work to prevent any inconvenience to the member by delaying the transaction process and not to compromise the integrity of the DMV.

Monitoring procedures have been established by the Temecula management to properly review that the audit procedures are being performed and making the necessary corrections for the identified errors.

Automobile Club of Southern California will continue to train all employees that process DMV vehicle registration transactions to ensure compliance with the recommendations in this audit report and our agreement with the DMV. We will continue to monitor procedures to oversee all efforts are made to meet the DMV's goals and objectives.

In closing, we thank the DMV Internal Audits Department for their support and courtesy extended to our branches through this audit process. If you have any questions regarding our responses to this draft audit report or need further clarification, please contact me at (714) 885-1849.

Sincerely,

A solid black rectangular box used to redact the signature of Colleen Villarreal.

Colleen Villarreal
Automobile Club of Southern California
DMV Liaison
(714) 885-1849